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ECONOMICS MULTIPLE CHOICE QUESTIONS

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SAMPLE



Questions from 9708 Cambridge
past papers CLASSIFIED BY TOPIC

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TOPIC 1

Basic Economic Ideas And Resource Allocation

- Scarcity, Choice And Opportunity Cost
- Factors of production
- Positive and normative statements.

1. A firm is considering whether to buy a piece of capital equipment which will cost \$2000. It estimates that the equipment will last for two years. The alternative is to lend the money to a finance company at a compound rate of interest of 5%.

What is the minimum increase in revenue the firm must expect to make it worthwhile buying the equipment?

- A \$101 B \$206
C \$2001 D \$2206

[N14/P1/Q2]

2. Arfan and his brother Ben own and run a fishing business together. They have one boat and on the days when they fish they employ Cephas and Dipak. They sell the fish to the owner of a local shop.

Which row correctly identifies the factors of production involved?

	land	labour	capital	enterprise
A	shop	Arfan and Ben	money paid for the fish	shop owner
B	shop	Cephas and Dipak	boat	Arfan
C	the fish	Ben	money paid for the fish	shop owner
D	the fish	Cephas and Dipak	boat	Arfan and Ben

[N14/P1/Q4]

3. In 2013, there was much criticism of a government project to build a new high-speed rail link between two cities.

What is the most likely reason for abandoning such a project?

- A The construction cost is greater than the running cost.
B The external cost is greater than the external benefit.
C The future costs are difficult to calculate.
D The opportunity cost is too high.

[J15/P1/Q1]

4. Which question does **not** directly refer to the basic economic problem?

- A What goods and services should a firm produce?
B What price should a firm charge?
C What production methods should a firm use?
D Who should receive the goods and services that a firm produces?

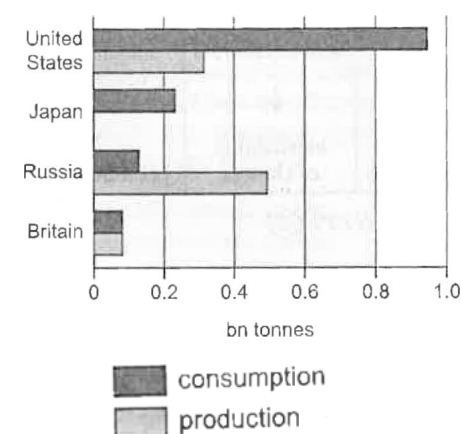
[N15/P1/Q1]

5. What term is used by economists for the income received by the factor of production enterprise?

- A capital B interest
C profit D revenue

[N15/P1/Q4]

6. In 2007 there was a worldwide shortage of oil. The diagram shows the consumption and production of oil (billion tonnes) in 2007 for selected countries.



What can be concluded from the diagram?

- A In Britain, oil had zero opportunity cost.
B In Japan, there was self sufficiency in oil.
C In Russia, there was no shortage of oil.
D In the United States, rationing was the only solution to oil shortage.

[J16/P1/Q1]

1. D If the firm lends \$ 2000 at compound rate of interest of 5% for two years it earns.

$2,205 = 2000 (1 + 5/100)^2$. Thus if the minimum increase in revenue is more than 2,205 it is worthwhile buying the equipment.

2. D Fish as a natural resource is classified as land while employment of Cephas and Dipak indicates labour. Boat is an example of capital good. Arfan & his brother own the boat and make the decision to employ labour, therefore they act as enterprise.

3. D Higher opportunity cost implies that the benefits from the next

best alternative are higher than those of building the rail link. All other options refer to the process of decision making.

4. B Basic economic problem refers to three basic questions, what, how & for whom to produce. It, therefore rules out options A, C & D.

7. In 2014, the Hong Kong Housing Authority said the waiting time for public sector housing had increased and it would only complete 8900 flats of the 15 000 planned for the year. The reasons were the shortage of workers because they were needed in other public sector projects, the difficulty of finding land, and government regulations.

Which economic concepts are illustrated in this information?

- A a market economy and a lack of resources
B economic planning and the price mechanism
C opportunity cost of labour and excess demand
D production possibility and budget deficit

[N16/P1/Q2]

Are these official statements correct or incorrect?

	first statement	second statement
A	correct	correct
B	correct	incorrect
C	incorrect	correct
D	incorrect	incorrect

[JJ7/P1/Q]]

8. To overcome the problem of scarcity, countries with few natural resources need to concentrate on the quality of human resources.

Which set of policies would be most appropriate?

	natural resources policy	human resources policy
A	develop renewable energy supplies	improve education and training
B	plan the allocation of resources	discourage automation
C	protect land resources	protect jobs in manufacturing
D	restrict imports of raw materials	restrict influx of skilled migrants

[N17/P1/Q1]

9. A government decides to subsidise farms producing milk in its country. Which question about this decision is a normative question rather than a positive question?

- A How much will milk production increase?
B How should essential products, such as milk, be produced?
C How will employment in the milk industry change?
D How will milk prices change?

[N17/P1/Q2]

5. C By definition.

6. C In Russia production exceeds consumption, so there should not be a shortage. Oil is a scarce resource therefore it has an opportunity cost, hence option A is invalid. Japan does not produce oil at all, therefore B is incorrect. US can import oil in order to make up for a shortfall; therefore D is not necessarily true.

7. C Labour needed in other projects implies both the opportunity cost and shortage of labour.

8. A Developing renewable energy resources would increase the overall availability of resources while education & training would improve productivity of workers. Both would result in higher output and therefore will help address scarcity more effectively. Option D will further intensify the problem while B & C will have no impact.

9. B Option B involves choices, therefore, refers to value judgment. Options A, C & D can be verified with reference to facts, so they are classified as positive statements.

10. The statements refer to the proposal to build another runway at London's Heathrow airport.

Which statement is normative?

A Heathrow is the UK's busiest air-port and has more flights than any other European airport.

B The airport is highly competitive but there is spare capacity.

C The potential net benefit of expansion is around £5 billion over 70 years.

D We should concentrate on improving the use of existing capacity not build another runway.

[J18/P1/Q1]

11. Which statement by a company is normative?

A In the past three years we have carried out the biggest merger acquisition in the group's history.

B The business has fallen behind competitors and needs to improve its ethical standards.

C The growth of the business has been in retail and financial services.

D The structure of the business has been simplified.

[N18/P1/Q1]

10. D "Should concentrate" suggests preference i.e. value judgment, a key feature of normative statements. All other statements can be verified by facts as true or false; hence they are positive statements.

11. B The phrase 'ethical standards' indicates value judgment. It therefore, makes the statement normative. All the others are positive statements because they can be verified against facts as true or false.



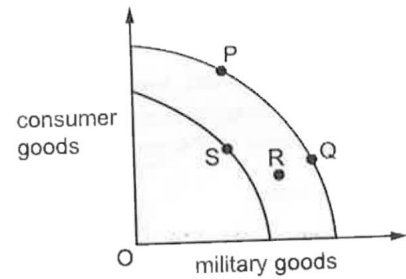
TOPIC 2

Production Possibility Curves

Economics multiple-choice
questions + Answers explained

Production Possibility Curves.

1. A country was at point P on its production possibility curve. Following the threat of invasion it prepared for war. The war then reduced the country's infrastructure.

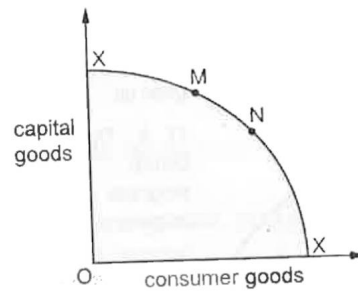


What are the most likely changes on the production possibility curve diagram that are consistent with these events?

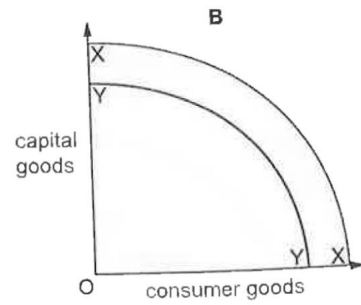
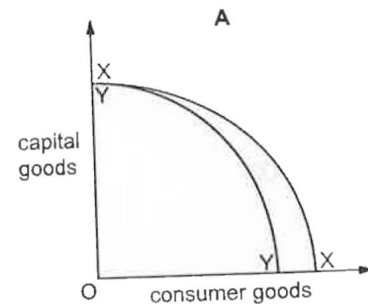
- A P to Q followed by Q to R
- B P to Q followed by Q to S
- C P to R followed by R to Q
- D P to R followed by R to S

[J14/P1/Q2]

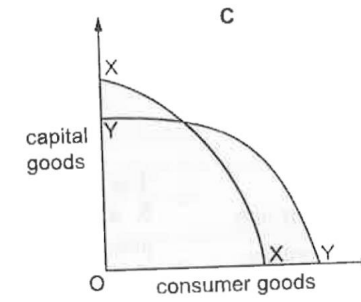
2. The diagram shows the production possibility curve XX of an economy that produces both consumer goods and capital goods.



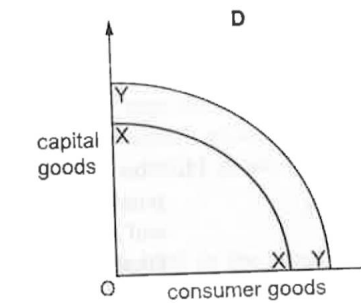
If the economy moves from point M to point N, which diagram represents the most likely position of the production possibility curve YY in the future?



1. B Firstly, preparation for war implies more military goods, therefore causing a movement from P to Q. Secondly, the war reducing infrastructure implies an inward shift in PPC leading to a shift from point Q to S.

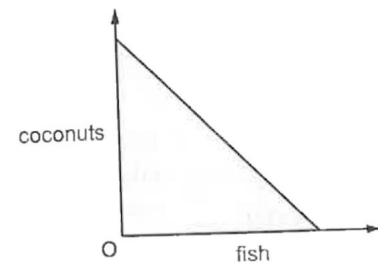


2. B Movement from point M to N implies less capital goods and a rise in consumer goods. Loss of production of capital goods could shift the PPC inward.



3. C A straight line PPC suggests constant opportunity cost. Thus it rules out option D. Also a PPC does not indicate demand therefore options A & B are irrelevant.

3. The diagram shows the production possibility curve of a desert island economy where the inhabitants live off just two commodities, coconuts and fish.



What explains the shape of the production possibility curve?

- A Coconuts and fish are in joint demand.
- B Coconuts and fish are perfect substitutes when consumed.

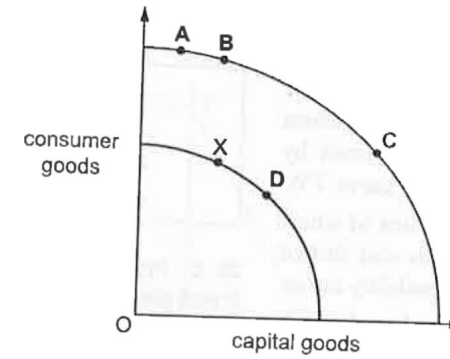
C Fishing and coconut growing are equally efficient.

D The opportunity cost of fish falls as more time is devoted to fishing.

[J15/P1/Q3]

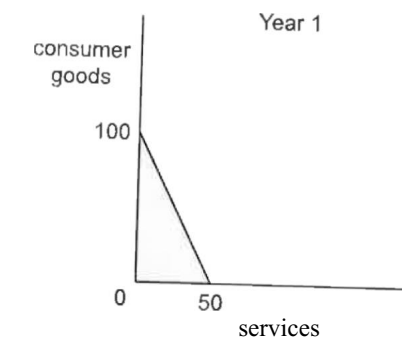
4. The diagram shows the change in an economy's production possibility curve as it grows in the long run.

Which movement from point X is most likely to show the highest potential for growth?



[N15/P1/Q2]

5. The diagrams show the change in a country's production possibility curve between Year 1 and Year 2.



What can be concluded from the diagrams?

A Future growth prospects have been harmed.

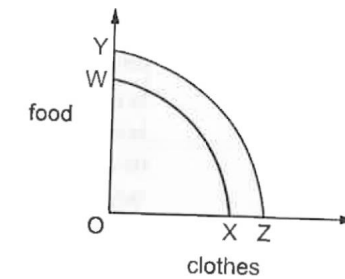
B The level of unemployment has fallen.

C The opportunity cost of consumer goods has risen.

D The proportionate growth in production is greater in consumer goods.

[N15/P1/Q3]

6. The change from WX to YZ in a country's production possibility curve is shown.

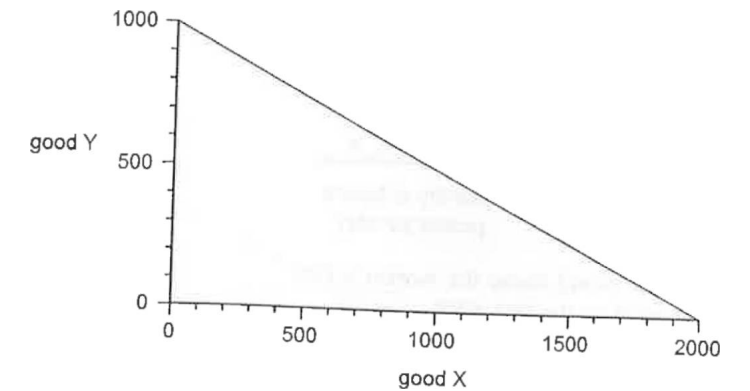


What could have caused this shift?

- A an increase in employment among the existing labour force
- B an increase in the rate of interest
- C the closing of an inefficient factory
- D the discovery of a new resource

[J16/P1/Q3]

18. The diagram shows a production possibility curve for an economy that produces only two goods, X and Y.



4. C Potential growth implies an outward shift in PPC. This rules out option D. Highest potential for growth is achieved with the maximum production of capital goods.

5. C

Year	Opportunity cost ratio	
	consumer goods	capital goods
1	1	0.5
2	1	0.533

The graphs do not indicate either the production of capital goods to assess future growth or the level of unemployment. Therefore options A or B are incorrect. Option D is clearly incorrect.

6. D Increase in natural resources can increase the potential as indicated by an outward shift in the PPC. All other options suggest factors that do not shift a country's PPC.

END OF FREE SAMPLE

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BENEFITS



01

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16. Population
17. Aggregate demand and supply
18. Inflation and deflation
19. Policies to correct inflation and deflation
20. Unemployment
21. Macroeconomic policies
22. International Trade
23. Exchange rates
24. Balance of payments
25. Policies to correct Balance of payments Disequilibrium

The fundamental economic problem

The fundamental economic problem is:

'scarce resources in relation to unlimited wants.'

1 2 3

1 Scarcity: The excess of human wants over what can actually be produced to fulfil these wants

2 Resources: inputs available for the production of goods and services.

3 Wants: needs that are not always realised.

Choice

Choice underpins the concept that resources are scarce so choices have to be made by consumers, firms, and governments.



Sacrifice

Choice involves sacrifice. The more food you choose to buy, the less money you will have to spend on other goods.



Opportunity cost

In other words, the production or consumption of one thing involves the sacrifice of alternatives. This sacrifice of alternatives in the production (or consumption) of a good is known as its opportunity cost.

Opportunity cost is the cost expressed in terms of the best alternative that is forgone.

EXAMPLE

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Question

'Both the take-up rate and number of journeys per bus pass have been falling in recent years.'

Explain two factors which could lead to an increase in the demand for bus travel in the future.

(10 marks)

Category: Demand and supply

AQA AS ECONOMICS November 2020

Answer

Tip: Generally, AQA exam questions are accompanied by an extract (although we have not included it here for simplicity). To score higher marks, refer back to the data (facts and figures) given in the extract, when writing your essay! Note that in this question you are asked to 'explain TWO factors'. In this case, it's a good idea to break your essay into two parts: Factor 1 and factor 2.

(Step 1: Define 'demand' in the introduction)

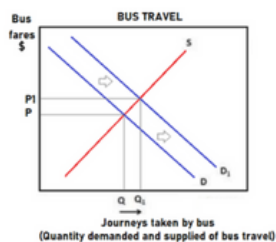
Demand refers to both the willingness and the ability of customers to pay a given price to buy a good or service. There are several factors which could lead to an increase in the demand for bus travel in the future.

(Step 2: Explain TWO factors which could increase the demand for bus travel)

Factor 1: A change in tastes or social norms will increase the demand for bus travel.

Today, travelling by bus has the image of being unpleasant, unreliable and for the 'lower class'. However, more awareness is being raised about air pollution, climate change and CO₂ emissions. People in the future may perceive bus travel as being more ecologically and economically efficient. Furthermore, with the introduction of smart lanes and electric buses, the experience of travelling by bus will improve with time. These factors will encourage people to take the bus.

If more people become aware that travelling by bus is environmentally friendly, more people will opt for bus travel to reduce their carbon footprint. The demand for bus travel will increase. The effect of an increase in demand for bus travel can be shown using a diagram. The diagram below shows the demand and supply curves of bus travel.



Initially, people are unaware of the environmental benefits of bus travel, the equilibrium price (bus fare) is P and the equilibrium quantity (number of journeys taken by bus) is Q . Following campaigns raising awareness about air pollution, more people will be encouraged to travel by bus instead of using their cars. The demand curve for bus travel shifts rightward from D to D_1 . The quantity demanded and supplied for bus travel increases from Q to Q_1 .

Factor 2: If the price of substitutes such as car travel increases, then people will turn to bus travel instead because of its more favourable relative price.

Substitutes are alternative goods and can satisfy the same want or need. Examples of substitutes are car travel and bus travel. For example, if the price of car travel increases significantly, people will look for cheaper alternatives, such as bus travel.

The cost of travelling by car can increase in the future, for instance, due to higher fuel prices. Consequently, if the cost of travelling by car goes up in the future, people will avoid travelling by car, and take the bus instead. The demand for bus travel will increase.

The government may also subsidise bus travel in the future, making bus fares cheaper. This will encourage people to switch away from using their cars to travelling by bus.

(Step 3: Conclude)

To conclude, the demand for bus travel could increase in the future if people perceive buses as being more ecologically and economically efficient. Also, if the price of substitutes such as car travel increases, then people will turn to bus travel instead because of its more favourable relative price.

MARKING SCHEME

- Relevant issues include:
- meaning of demand
 - lower relative price and/or greater availability compared with substitute goods
 - increased subsidy
 - changes in tastes and/or social norms
 - changes in income and/or consideration of bus travel as an inferior good
 - increased population and/or changes in age structure
 - the significance of elasticities

Level 3

- An answer that:
- identifies two valid factors
 - shows sound knowledge and understanding of relevant economic terminology, concepts and principles
 - includes good application of relevant economic principles and/or good use of data to support the response
 - includes well-structured analysis with a clear, logical chain of reasoning
 - may include a relevant diagram to support their explanation

EXAMPLE

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03

Economics Data Questions.

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SKIM THE DATA
Start by skimming the data. Read the text quickly to get a general idea of meaning.

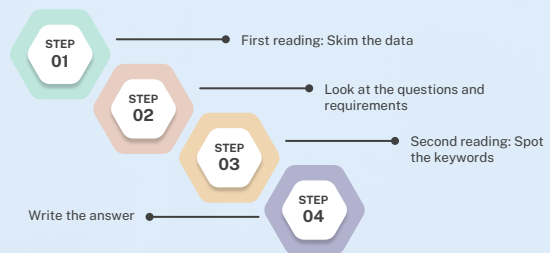
LOOK AT THE TITLE
Look at the title as it may give some clues about its content.

ANALYSE FACTS, FIGURES AND TABLES
Analyse facts, figures tables and diagrams. See if you know what they mean. Pick out any notable features of a chart or diagram.

COMPETITION IN THE SKIES OVER EUROPE

It was predicted that this would lead to an increase in the market share for the top five European airlines from 50% of the European market in 2019 to match the top five United States (US) airlines, which control 77% of the US market.

STEPS TO ANSWER A DATA RESPONSE QUESTION



Read the Requirements

Always read the requirement first as this enables you to focus on the detail of the question with the specific task in mind.

What is the point in reading a scenario if you don't know what you are looking for? If you don't read and understand the requirements carefully, then you will find that you are not actually answering the question. If you are not answering the question, then you are not earning marks.

Pay attention to (1) The content and (2) The instructions

Explain what is meant by a contestable market and discuss how making the airline market more **contestable** could benefit passengers.

... contestable market...benefit

THE CONTENT
When you read each part of the requirement, highlight the 'content'. This is simply what the question is about. This helps you to focus your mind on answering the actual question rather than answering what you thought the question was going to ask you.

THE INSTRUCTIONS
This instruction could be a whole variety of verbs ranging from numerical requirements such as calculate and apply, or more wordy requirements such as describe, interpret, outline or compare. The verb used has been carefully thought about by the examiner, taking into account any restrictions imposed by the syllabus.

Explain

Explain what is meant by a contestable market and discuss how making the airline market more contestable could benefit passengers.

(d) Explain two reasons why a government may privatise an industry. [4]

There are several reasons why a government may privatise an industry, such as air travel.

STRUCTURE

CLEAR HEADINGS

Reason 1: Privatising an industry may lead to an increase in government revenue.

The government may earn more tax revenue if it privatises a state-owned industry. This is because a privately owned industry has to pay corporation tax. A corporation tax is a tax levied on companies profits.

PARAGRAPHS

The sale of a state-owned enterprise to the private sector will also raise money for the government.

REFERENCE TO THE DATA

In the data, it was mentioned that a successful sale of Air India to the private sector would have raised money for the Indian government.

More tax revenue will enable the government to increase its spending on education, healthcare or infrastructure. This will help to promote development in the country.

SIMPLE ENGLISH

Reason 2: The government may privatise an industry because the industry is making a loss.

The need to use tax revenue to finance the loss-making industry will be reduced. The private sector may also manage the industry with greater efficiency and turn the loss into a profit. This is because the private sector, motivated to make a profit, will increase productivity and reduce costs.

EXAMPLE

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Questions

Paper and year

Topic

Answers and Explanations

Scarcity, Choice and Opportunity Cost Multiple Choice Questions

1. Which terms summarise the nature of the economic problem?
 A finite resources and limited wants
 B finite resources and unlimited wants
 C infinite resources and limited wants
 D infinite resources and unlimited wants
 [210/P220]

2. The government of a country with a rapidly increasing population decides to switch resources from investment to increased subsidies to farmers. What is the opportunity cost of this decision?
 A the profit earned by farmers
 B the rest of the land on which food is grown
 C the reduction in investment
 D the wages of the farm workers
 [210/P247]

3. Which economic change would increase the problem of scarcity?
 A a decrease in fish stocks
 B a discovery of a new oil field
 C an increase in labour productivity
 D a reduction in waste
 [110/P1/052]

4. What makes choice an important element in the basic economic problem?
 A increased demand leads to higher market prices.
 B limited resources have many alternative uses.

C Reaching a market equilibrium may take a long time.
 D Scarce economic resources are distributed equally.
 [10/P1/011]

A government of acid with their about to ending on the other side of the world.
 A conservation of resources
 B monetary policy
 C opportunity cost
 D substitution of factors
 [210/P202]

5. A firm decides stop manufacturing B and switch to C producing washing machines instead. What is the opportunity cost to the firm?
 A the additional washing machines produced
 B the cost of producing ovens
 C the cost of producing washing machines
 D the cost of the production of ovens
 [211/P201]

6. What is meant by the economic problem?
 A how to choose between two different uses of the same resources
 B how to allocate resources between public and private sectors
 C how to allocate unlimited resources against finite resources
 D how to decide which methods to use to exploit all resources

7. A firm has two production processes. The first uses an unlimited supply of resources. The second uses a limited supply of resources. What is the opportunity cost of using the first process?
 A the cost of the second process
 B the cost of the first process
 C the cost of the second process
 D the cost of the first process

O level topics

01	Economic Problems
02	Factors of Production
03	Economic Systems
04	Demand, Supply and Equilibrium
05	Perfect Competition and Monopoly
06	Aims of Government and its Role
07	Market Failure
08	Public Expenditure vs Private Expenditure
09	Banks and Stock Exchanges
10	Labour Market
11	Motives for Spending, Saving and Borrowing
12	Different Types and Sizes of Firms
13	Production, Costs, Revenues and Profits

AS level topics

01	Basic Economic Ideas And Resource Allocation
02	Production Possibility Curves
03	Classification Of Goods And Services
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A level topics

01	Law of Diminishing Marginal Utility, Indifference Curves and Budget Lines
02	Types of Cost, Revenue and Profit
03	Firms and Market Structures
04	Efficient resource allocation
05	Equity and Policies towards Income and Wealth Redistribution
06	Labour Market Forces
07	National Income Statistics
08	The Circular Flow of Income
09	Money Supply (theory)
10	Economic Growth, Economic Development and Sustainability
11	Government Macroeconomic Policy Aims